



# Middlebury Institute of International Studies at Monterey

## Introduction

Good Afternoon, Chairman Pfluger, Ranking Member Magaziner, and distinguished members of the committee. Thank you for the opportunity to testify today. I request that this written statement be put into the record.

Since the beginning of the Trump Administration, the U.S. national security architecture has pivoted to the challenge of tackling state-borne threats. While there is little question that Russia, China, and Iran pose significant threats to U.S. national security interests, we must not ignore the array of transnational actors who seek to harm the United States. This is why your hearing today is so important – it gives us a chance to examine the transnational threat landscape.

Before diving into the substance, I want to share with you some of my past and current work experiences that qualify me to speak to the issues that I am going to cover in my testimony below.

My name is Jason Blazakis and I am a professor at the Middlebury Institute of International Studies in Monterey, California. I am also the Director of Middlebury's Center on Terrorism, Extremism, and Counterterrorism (or CTEC for short). I have served in these dual roles since July of 2018. At the same time, I am also a Senior Research Fellow at the Soufan Center, a non-profit and non-partisan think tank based in New York City.

Prior to joining the Middlebury Institute, CTEC, and the Soufan Center, I worked in the federal government for nearly twenty years. Of those years in government service, I worked across both Republican and Democratic Administrations. The last ten-and-a-half years of my government service was spent at the Counterterrorism (CT) Bureau at the U.S. Department of State. Additionally, I was the head of Embassy Kabul's Narcotics Affairs Section (NAS) for much of 2004 and worked at the State Department's Bureau of International Narcotics and Law Enforcement Affairs Bureau (INL). Finally, I spent nearly four years in the U.S. Intelligence Community (USIC). In the USIC, I worked at the Bureau of Intelligence and Research (INR). These experiences working on counterterrorism, law enforcement, and intelligence issues for the U.S. government influence my views on which policies are most suitable for countering terrorist groups and criminal organizations, like drug cartels.

At the CT Bureau between early-2008 and July 2018, I directed the activities of the Office of Counterterrorism Finance and Designations. Simply put, I, and my team, at the CT Bureau were responsible for evaluating and compiling the underlying evidence that ultimately contributed to the Secretary of State's labeling of Foreign Terrorist Organizations (FTOs) pursuant to the Immigration and Nationality Act. My office was also responsible for recommending which groups or individuals should be designated as Specially Designated Global Terrorists (SDGTs) pursuant to Executive Order (EO) 13224. Furthermore, my team developed the evidence required for listing State Sponsors of Terrorism consistent with various legal statutes. In my time at the

Department of State I oversaw the designations of hundreds of individuals, organizations, and countries as terrorists. Simultaneously, my office was responsible for reviewing hundreds of Treasury Department proposed terrorist designations under EO 13224. Finally, I served as the CT Bureau's representative to the U.S. Government's review group responsible for activities related to the Rewards for Justice (RFJ) program, the U.S. Department of State's national security rewards program that was established in 1984.<sup>1</sup>

## **The Mexican Drug Cartels**

Today, I was asked to devote a significant portion of my testimony to the question of whether the "Mexican drug cartels should be designated as FTOs." In my time at the CT Bureau at the State Department the issue of whether to designate the "Mexican cartels" as FTOs was raised periodically. Every time the debate arose, I expressed my opposition to leveraging the FTO tool against the "Mexican drug cartels." Before getting into the substance of my reasons for this I want to note two things. First, I was not alone in opposing these designations. Many others at the State Department, Department of Defense, Intelligence Community, and law enforcement community believed this was a bad idea. This remains the case today. It is also very important to emphasize that this is why the Trump Administration did not designate any Mexican drug cartels as an FTO, despite promising to do so.<sup>2</sup> Second, the Mexican drug cartels are not monolithic. As such, when someone calls for designating the drug cartels, we need to inspect what this precisely means. There are dozens of drug cartels based in Mexico. Not all of them are created equal and some, quite frankly, are not significant threats to U.S. national security, much less the homeland. Yet, while I oppose the use of terrorism tools to counter cartels, I want to be clear: several Mexican drug cartels are a threat to the homeland. For example, a recent press release by the Department of Justice noted, "the Sinaloa Cartel is one of the most powerful drug cartels in the world and is largely responsible for the manufacturing and importing of fentanyl for distribution in the United States."<sup>3</sup> The Sinaloa Cartel is a clear and present danger to U.S. national security, especially when you consider that fentanyl is more than 50 times more potent than heroin and is the leading cause of death for Americans ages 18 to 49.<sup>4</sup>

Nevertheless, designating any of the Mexican drug cartels as FTOs at this time is a bad idea.

Here's why: First, the FTO list is comprised of organizations that are guided by an ideological belief system. The Mexican drug cartels are guided by one thing – a desire to make money. They do what they do, sling drugs, to make money. They don't peddle drugs because they want to uproot the powers that be. They have no interest in governing. Simply put, unlike ISIS, they have no interest in creating a caliphate-like structure. They don't have any interest in overthrowing Mexican President Andres Manuel Lopez Obrador. The United States Government must not conflate terrorism and crime. It is a slippery slope when the State Department gets into the business of identifying criminal organizations as terrorist groups. As of June 1, 2023, the FTO

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<sup>1</sup> U.S. Department of State. "Program History and Statutory Authorities." <https://rewardsforjustice.net/about/program-overview/>. Accessed on June 1, 2023.

<sup>2</sup> <https://www.npr.org/2019/11/27/783449704/president-trump-says-he-will-designate-mexican-drug-cartels-as-terrorist-groups>

<sup>3</sup> <https://www.justice.gov/opa/pr/justice-department-announces-charges-against-sinaloa-cartel-s-global-operation#:~:text=The%20Sinaloa%20Cartel%20is%20one,times%20more%20potent%20than%20heroin.>

<sup>4</sup> Ibid

list has 68 groups on it. If the State Department starts designating criminal groups as terrorists, the number of eligible targets that could be added to the FTO would significantly increase. Hundreds of new organizations could be added to the FTO list – not just Mexican drug cartels, but Brazilian gangs, Central American gangs, Italian mafia groups, the Yakuza crime syndicate, and many more. That’s a recipe for disaster. It’s a recipe for bureaucratic inertia, especially when you consider the amount of work that goes into every FTO designation package. Each FTO designation takes hundreds, in some cases thousands, of combined person hours to complete. Each FTO designation package is the equivalent of writing a Ph.D. dissertation. My old office responsible for this work has fewer than ten people who are exclusively dedicated to sanctioning FTOs. As such, they must carefully prioritize the targets they select for designation. If the CT Bureau at State gets into the business of designating criminal groups as terrorists, it gets out of the business of designating terrorist groups. This is a bad tradeoff.

However, there is one very significant advantage of applying the FTO regime against the Mexican drug cartels. Adding the Mexican cartels to the terrorist list would trigger the material support benefits that come with FTO designations.<sup>5</sup> Simply put, that means more time beyond bars for those who try to provide material support to the cartels.<sup>6</sup> On the one hand, that’s a net positive. However, this is also a possible benefit with downsides. I can easily imagine scenarios where drug consumers may run afoul of the material support clause when they buy drugs trafficked by a Mexican drug cartel. I can imagine a scenario where a high school junior, let’s name him Henry, buys fentanyl from a Mexican drug cartel and an overly enthusiastic prosecutor decides to pursue a material support case against Henry because he provided funding to an FTO. Similarly, I can see a college sophomore, let’s call her Sally, who goes to spring break in Acapulco and ends up buying drugs from a Mexican cartel. In this scenario, let’s assume when Sally returns home from spring break that she has the illicit drugs in her checked bag. This results in Sally being arrested at the airport. She’s eventually charged for providing material support to a Mexican drug cartel that had been already designated by the U.S. Department of State as an FTO. These types of theoretical scenarios worry me – and should worry every one of you. Sadly, because of America’s drug epidemic, there are a lot of Sally’s and Henry’s hooked on drugs. I don’t think the solution is branding Henry and Sally as terrorists. Yet, adding the Mexican drug cartels to the list of terrorist organizations increases the chances that many more Americans could be prosecuted for terrorism. Their drug addiction is already a tragedy. It seems unnecessary to compound the error, but adding the Mexican drug cartels to the list of terrorist organizations would do just that.

Moreover, a U.S.-driven FTO designation of drug cartels holds a variety of consequences for asylum seekers. For example, victims coerced into carrying out material support are frequently discounted from receiving any humanitarian assistance or asylum.<sup>7</sup> In this way, an FTO designation fails to distinguish those who act willingly on behalf of the cartel from those that are forced to do so. Conversely, an FTO designation could aid those attempting to flee for politically

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<sup>5</sup> <https://www.latimes.com/opinion/story/2023-03-17/dont-designate-mexican-drug-cartels-as-foreign-terrorist-organizations>

<sup>6</sup> Many of the cartels are treated as transnational criminal organizations already and as a consequence individuals who support these groups can face stiff prison sentences. Yet, low-level material supporters of FTOs often receive 20 to 25 years behind bars.

<sup>7</sup> <https://michiganlawreview.org/ms-13-as-a-terrorist-organization-risks-for-central-american-asylum-seekers/>

motivated reasons—an FTO automatically identifies a terrorist or terrorist group as a political actor.<sup>8</sup> Should civilians speak out against the cartels, they are more likely to obtain asylum for expressing a suppressed political opinion; nonetheless, only a limited group of individuals can receive this benefit. Even those asylum seekers that are capable of resisting recruitment may not be considered “politically persecuted,” much less those forced to carry out the cartel’s illicit activities.<sup>9</sup>

One of the strengths of the FTO regime is the fact that the designation requires financial institutions to block any assets associated with the designated entity. Because the most dangerous Mexican drug cartels are already designated pursuant to the Foreign Narcotics Kingpin Designation Act,<sup>10</sup> they are already subject to having their property and interests blocked. Of note, hundreds of entities and individuals have been designated as Kingpins and there have been tangible results. According to a 2019 GAO study, OFAC has “reported that it has frozen more than half a billion dollars of sanctioned individuals’ or entities assets under the Kingpin Act between 2000 and 2019.”<sup>11</sup> Simply put, the FTO designation would bring nothing new to the table when it comes to accessing the wealth of the Mexican drug cartels.

Fifth, one of the benefits of the FTO regime is that it renders individuals associated with the designated terrorist group inadmissible to the United States. According to the same GAO study, one of the consequences of sanctions pursuant to the Kingpin Act is that it provides a basis for denying visa requests. Specifically, “Treasury provides information to State so it can decide whether to cancel existing visas and deny visa applications of Kingpin Act designees.”<sup>12</sup> Yet again, an FTO designation would not benefit the U.S. Government when it comes to denying drug traffickers access to the United States. The ability to do that already exists thanks to the Kingpin Act.

Finally, the designation of the Mexican drug cartels would damage U.S.-Mexico relations. In 2019, when the Trump Administration explained that it was considering the FTO designation, President Obrador was categorical in his opposition. To counter the Mexican drug cartels, the United States must work with the Mexican government. Foreign Minister Marcelo Ebrard emphasized this point in an Op-Ed earlier this year. He criticized U.S. efforts to seemingly undermine Mexican authority and indicated that an FTO designation would ultimately increase violent and illicit activities within both countries.<sup>13</sup> It is clear that U.S. calls for intervention in Mexico have increased tensions between the two countries writ large; To defend Mexican authority and geopolitical interests, Ebrard stressed that the U.S.’ sheer plethora of available weaponry remains a major contributing factor to increased cartel violence.<sup>14</sup> To maintain our own image and secure our relationships with our Central American partners, it is in the U.S.’ best interest to secure avenues of collaboration—not competition. While Mexico can certainly do much more to fight the drug cartels, we would be mistaken to think that they are sitting on their

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<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> <https://www.ecfr.gov/current/title-31/subtitle-B/chapter-V/part-598>

<sup>11</sup> <https://www.gao.gov/assets/gao-20-112.pdf>

<sup>12</sup> Ibid. Page 12.

<sup>13</sup> <https://www.reuters.com/world/americas/mexicos-top-diplomat-stresses-cooperation-with-us-versus-intervention-2023-03-11/>

<sup>14</sup> <https://www.wsj.com/articles/mexico-foreign-minister-drug-cartels-bill-barr-ag-91345214>

hands. We would also be mistaken to think that the Mexican drug cartel challenge is only Mexican-made. Some have irresponsibly argued<sup>15</sup> that the designation would allow for more direct U.S. military action against the cartels. This notion is highly problematic, likely would result in a violation of Mexico's sovereignty and poison the well for any cooperation with the Mexican government. Even worse, it could push Mexico further into the orbit of America's fiercest economic (China), military (Russia), and ideological (Iran) opponents.

China's investment in Mexico has grown in leaps and bounds over the last several years. In fact, in 2021, Chinese and Mexican trade exceeded \$100 billion.<sup>16</sup> In 2022, Chinese foreign direct investment (FDI) in Mexico was significant at \$282 million—indicative of Chinese industry's vested interest in expanding its global reach and overarching sphere of influence.<sup>17</sup> Moreover, evidence of criminal collusion between Chinese chemical companies and the Sinaloa cartel are noteworthy; an unsealed indictment in April revealed that a Chinese company sold illicit fentanyl-producing ingredients to cartel personnel, thus perpetuating America's burgeoning opioid crisis.<sup>18</sup> A U.S.-driven FTO designation could serve to facilitate and sustain Chinese and Mexican illicit trade routes, should the Mexican and Chinese governments fail to adequately address this expanding criminality. The United States' volatile relationship with the CCP in addition to its mounting tensions with Mexican authorities have the potential to isolate U.S. influence from conversations on mitigating the fentanyl trade—a trade that ultimately reaps severe consequences among the American public.

Russia similarly continues to cultivate relationships and strategic business ventures in the LATAM region. While limited in quantity, Russia previously supplied Mexico with military equipment and continues to expand its presence among the United States' central and South American neighbors, likely to sow geopolitical discord and sour perceptions of U.S. authorities.<sup>19</sup> Evidently, given growing interest and investment from our adversaries in Mexico, the United States must work to ensure our partnerships in Central America are strong and cooperative in nature. There have also been reports that the notorious Russian mercenary organization, PMC Wagner, tried to establish an office in Mexico prior to the outbreak of COVID-19.

All this to say, if the U.S. Government pushes Mexico on the FTO designation, it runs the risk that Mexico will distance itself from the United States and strengthen relations with countries like China and Russia.

These are but handful of reasons why designating the Mexican drug cartels as terrorist groups would be a mistake. Yet, there is much more that should be done to counter these groups. The next section of my testimony explores some possible ways the U.S. government can expand its efforts to counter the drug cartels.

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<sup>15</sup> <https://www.usatoday.com/story/news/nation/2023/04/16/mexican-drug-cartels-terrorist-organizations-senators-fentanyl-mexico-border/11666432002/>

<sup>16</sup> <https://www.brookings.edu/on-the-record/how-is-china-involved-in-organized-crime-in-mexico/>

<sup>17</sup> <https://www.dallasfed.org/research/swe/2023/swe2303>

<sup>18</sup> <https://www.washingtonpost.com/health/2023/04/27/fentanyl-china-chemical-companies/>

<sup>19</sup> <https://www.csis.org/analysis/russia-western-hemisphere-assessing-putins-malign-influence-latin-america-and-caribbean>

## **What Should be Done About the Mexican Drug Cartels?**

Militarizing the border, putting U.S. troops into Mexico, and sanctioning the cartels as FTOs are not appropriate policy responses to countering the drug cartels. As noted earlier, the Mexican cartels are not only a Mexican-made problem. The trafficking of arms, ammunition, and other weaponry from the United States across the border into Mexico broadens cartels' breath of resources and facilitates continued violence. Mexican authorities found that approximately 70 to 90 percent of guns found during criminal investigations are linked to the United States.<sup>20</sup> This figure tells us that the availability and accessibility of guns within the United States renders their feasible illicit transfer. Moreover, it indicates U.S. complicity in the cartel's violent crimes. In fact, a gun used to carry out the kidnapping and subsequent murder of two Americans in Mexico during March of this year was trafficked by way of the United States.<sup>21</sup> More recently, in April 2023, a U.S. citizen was caught plundering 5,680 rounds of pistol ammunition from Southern Texas to his home in Mexico.<sup>22</sup> In addition to arms and ammunition, U.S. Customs and Border control officials uncovered 50,000 pounds of fentanyl crossing into the U.S. Southern border in 2022 alone.<sup>23</sup> These examples serve as a snapshot of a much broader problem, implicating both the United States and Mexico in furthering transnational cartel crime. There are no simple solutions to this problem, but one obvious policy is to adopt stricter arms control laws in the United States. Simply put, America is arming the Mexican drug cartels and that must stop.

### **Narcotics Rewards Program/Rewards for Justice (RFJ) Program**

When I was at the State Department, I managed the CT Bureau's involvement in the RFJ program that focused on countering terrorists. That program has been used more frequently than the U.S. Department of State's "Narcotics Rewards Program (NRP)." The RFJ program is administered by the Bureau of Diplomatic Security (DS), but the NRP program is administered by the State Department's INL bureau. This is a bureaucratic inefficiency and folding NRP under the authority of the DS Bureau may improve the pace of narcotics related designations. The NRP should be used more. The program is designed to incentivize individuals to provide tips on the activities of drug dealers so that they can be prosecuted for their misdeeds. Adding more individuals from the Mexican drug cartels to the NRP list would be useful. If the program expands, it is very likely that some of the best lead information will come from within the cartels. After all, criminals like their money, especially informants within crime groups. It is important to acknowledge that on April 14, 2023, the U.S. Department of State used the NRP to announce rewards offers for information leading to the arrest and conviction of 27 individuals involved in illicit fentanyl trafficking. Expanding these efforts would be better than labeling drug cartels as FTOs.

### **Capacity Building**

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<sup>20</sup> <https://news.harvard.edu/gazette/story/2022/02/stopping-toxic-flow-of-gun-traffic-from-u-s-to-mexico/>

<sup>21</sup> <https://abcnews.go.com/International/gun-kidnapping-americans-mexico-allegedly-us/story?id=98012006>

<sup>22</sup> <https://www.justice.gov/usao-sdtx/pr/american-living-mexico-caught-trying-export-5680-rounds-ammunition>

<sup>23</sup> <https://www.nbcnews.com/politics/national-security/fentanyl-gun-smuggling-us-mexico-border-deal-rcna75782>

According to the U.S. Department of State, between 2008-2021, the United States spent \$3.3 billion in equipment, training, and capacity building for Mexican justice and law enforcement sectors.<sup>24</sup> Much of this security cooperation assistance has focused on assisting Mexican police, prosecutors, and judges' efforts to better track criminals, drugs, arms, and money to disrupt organized crime groups. Moving forward, funds for countering the drug cartels should aim to build Mexico's Financial Intelligence Unit (FIU) capacity. Further, specialized attention and training in the area of anti-corruption is critical. Based on my experience of working in the NAS in Embassy Kabul, building up judiciary and law enforcement capacity is crucial. However, winning the fight against blood money will require an expansion of regulatory efforts, as well as the strengthening of Mexico's FIU and most importantly the private sector. The solution to countering the financing of the cartels will require reinforcing and bolstering Mexico's banking compliance systems. In my experience of countering illicit actor financing, the private sector's buy-in is critical. Like the Financial Action Task Force (FATF),<sup>25</sup> I define private sector broadly, to include accountants, lawyers, precious gem dealers, among many others. In its last Follow-Up Report regarding its FATF mutual evaluation, Mexico scored a 'non-compliant' on FATF recommendation 23. As such, the United States should focus on capacity building efforts that aim to strengthen Mexico's Designated Non-Financial Businesses and Professions (DNFBPs). The Mexican drug cartels need accomplished lawyers and accountants to make their money look clean as they try to insert their dirty money back into the formal financial system. Improving Mexico's DNFBPs' abilities to detect and report suspect transactions and money laundering is a cost-effective way to counter Mexico's drug cartels.

### **Social, Health, and Educational Policies**

As much as the Mexican drug cartels are a national security challenge, the broader challenge of drugs in America is, frankly, more of a health, social, and educational challenge. In my view, the federal government is not allocating enough time, money, and resources to health, education, and social policies that can decrease America's appetite for drugs. We must address the demand side of this problem while also countering the suppliers and traffickers.

In the 2022 fiscal year, the U.S. total federal drug control spending was \$41 billion. In response to the increase of substance use disorders, namely the ever-growing fentanyl crisis, the budget requests for 2023 and 2024 were slightly increased.<sup>26</sup> The misuse of prescription drugs and the opioid epidemic are a major focus of U.S. drug control strategies and spending. The death rates caused by the misuse of opioids and synthetic variants such as heroin continue to rise. From 1999 to 2014, the number of annual deaths caused by fentanyl overdoses hovered just underneath 3,000 deaths per year. After 2015, there has been a massive spike in fentanyl overdoses. In 2021, overdoses dramatically increased to 70,601. This jump is alarming—this new potent synthetic opioid is the number one cause of drug-related death in the United States.<sup>27</sup> Yet, when compared to other types of spending, our efforts to fight the drug problem on the demand side can be best

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<sup>24</sup> <https://www.state.gov/u-s-relations-with-mexico/#:~:text=The%20United%20States%20and%20Mexico%20partner%20to%20combat%20transnational%20organized,justice%20and%20law%20enforcement%20sectors.>

<sup>25</sup> FATF sets guidelines for countries to follow in countering terrorism financing and money laundering.

<sup>26</sup> <https://www.statista.com/statistics/618857/total-federal-drug-control-spending-in-us/>

<sup>27</sup> <https://www.statista.com/statistics/895945/fentanyl-overdose-deaths-us/>

characterized as unserious, especially when we compare that \$41 billion to the current Department of Defense (DoD) budget. DoD's budget for FY 2023 was over \$2 trillion.<sup>28</sup> Simply put, killing, prosecuting, and sanctioning the supply-side entities and individuals (the Mexican drug cartels) of this problem is not enough. It may not be sexy policy to invest in educational, medical, and social-policy initiatives to fight the drug scourge, but this is an area where lawmakers must invest more financial resources.

## **Other Transnational Threats**

The United States faces a broad array of transnational threats, to include gangs, terrorist groups, and private military companies. In my view, the groups noted below represent the most serious transnational threats to the U.S. homeland.

### **MS-13**

The Mara Salvatrucha (MS-13) originated in the 1970s and 1980s in Los Angeles, California.<sup>29</sup> Formed by Salvadorian immigrants escaping civil war, the transnational street gang now has outreach in El Salvador, Honduras, Mexico, and the United States. Engaging in crimes such as murder, narcotics, weapon trafficking, and extortion, MS-13 continues to pose a serious threat to U.S. security.<sup>30</sup> Despite its American origin, the gang's cultural ties to Central America have enabled their influence to spread rapidly among communities in El Salvador, Honduras, Guatemala, and Nicaragua. Chasing the reputation of being the most murderous gang in the world, MS-13 is on the road to just that: in March 2022 the gang's death toll reached an all-time high of 62 deaths within a 24-hour period.<sup>31</sup> Unsurprisingly, their barbaric practices have become well known to the U.S. Department of the Treasury, who recently sanctioned members of the gang residing in Nicaragua and Honduras in February 2023. Freezing their property rights and blocking their financial transactions, the U.S. Department of the Treasury hopes their response will prevent further extortion, money laundering and drug trafficking across the U.S.-Mexico border.<sup>32</sup> MS-13's violence, sadly, is unlikely to end because of these designations, or any designation for that matter. Indeed, MS-13's violence has sparked the flow of refugees—innocents who want to escape the violent world MS-13 has created in Central America. Sadly, as I have previously described, this violence has American roots.

## **Terrorist Threats (ISIS and AQ)**

The Salafi-jihadist threat posed groups like ISIS and al-Qa'ida. These groups, while not the potent forces they once were, still have the capacity to inspire homegrown extremists to carry out acts of violence. Frequently, we can still read Department of Justice media releases documenting a new arrest, prison sentence, or guilty verdict for individuals associated with ISIS and al-Qa'ida.

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<sup>28</sup> <https://www.usaspending.gov/agency/department-of-defense#:~:text=Each%20year%20federal%20agencies%20receive,making%20financial%20promises%20called%20obligations%20.>

<sup>29</sup> <https://insightcrime.org/el-salvador-organized-crime-news/mara-salvatrucha-ms-13-profile/>

<sup>30</sup> <https://www.ojp.gov/ncjrs/virtual-library/abstracts/ms-13-gang-profile>

<sup>31</sup> <https://www.bbc.com/news/world-latin-america-60893048>

<sup>32</sup> <https://apnews.com/article/drug-crimes-crime-caribbean-honduras-central-america-812e435334860ae703110202fa64c008>



Recently, not far from where we sit today, in Virginia, the U.S. government arrested an alleged ISIS supporter. In early May 2023, Virginia resident Mohammed Chhipa was arrested for sending nearly \$200,000 overseas to ISIS.<sup>33</sup> Chhipa could face decades behind bars for providing material support to a designated FTO. This underscores that ISIS sympathizers remain active in the United States. Second, it underlines the point that terrorist financing is also a persistent threat to U.S. national security interests. As the February 2023 Annual Threat Assessment of the U.S. Intelligence Community, “ISIS’s ideology and propaganda...almost certainly will continue to inspire attacks in the West, including the United States.”<sup>34</sup> This challenge is likely to intensify because of the ham-fisted way the United States left Afghanistan. This spring, General Michael Kurilla, head of U.S. Central Command, told the U.S. Senate Armed Services Committee that ISIS’s province in Afghanistan, ISIS-Khorasan, “can do an external operation against U.S. or Western interests abroad in under six months with little or no warning.”<sup>35</sup>

Like ISIS, al-Qa’ida remains a threat to U.S. national security interests, despite that the group’s leader was killed in 2022.<sup>36</sup> Of particular concern is the sanctuary al-Qa’ida now has in Afghanistan by virtue of the Taliban<sup>37</sup> taking over the country. As the Annual Threat Assessment of the U.S. Intelligence Community explains, “al-Qa’ida remains committed to attacking U.S. interests.” The group also continues to inspire homegrown extremists and the group is well known for playing the long game. Unlike ISIS, al-Qa’ida is more patient. In many ways, this makes the group more difficult to infiltrate and counter. One of many examples of al-Qa’ida’s careful planning culminated in the group’s deadly December 2019 attack at a Naval Air Station in Pensacola, Florida. The perpetrator of the attack was part of the Royal Saudi Air Force and the investigation following the attack revealed operational ties between the attacker and al-Qa’ida’s affiliate in Yemen.<sup>38</sup>

## **Iran’s Threat Network**

The Iranian regime and its many proxies represent a clear threat to the United States. While Iran’s proxies, including Hizballah, operate in the United States, Iran’s menacing activities are a greater threat to U.S. overseas interests. Nonetheless, Hizballah’s U.S. based terrorist financing schemes have made the group millions of dollars. Iran has also plotted to assassinate Americans, most notably John Bolton. This month the U.S. Department of the Treasury sanctioned Mohammad Reza Ansari and Shahram Poursafi pursuant to E.O. 13224 for their plot to assassinate Americans.<sup>39</sup>

## **PMC (Wagner)**

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<sup>33</sup> <https://www.fox5dc.com/news/virginia-man-accused-of-sending-money-to-isis-remains-behind-bars-following-court-appearance>

<sup>34</sup> <https://www.dni.gov/files/ODNI/documents/assessments/ATA-2023-Unclassified-Report.pdf>

<sup>35</sup> <https://www.usnews.com/news/national-news/articles/2023-03-16/u-s-commander-isis-in-afghanistan-6-months-away-from-foreign-attack-capability>

<sup>36</sup> <https://www.csis.org/analysis/zawahiris-death-and-whats-next-al-qaeda>

<sup>37</sup> Al-Qa’ida is a longtime ally of the Taliban and the ties between the groups remain strong.

<sup>38</sup> <https://www.cnn.com/2020/05/18/politics/pensacola-shooting-al-qaeda/index.html>

<sup>39</sup> <https://home.treasury.gov/news/press-releases/jy1513>

Private Military Companies (PMCs), such as the Russia-based Wagner Group represent a threat to U.S. national security interests. Indeed, the Treasury Department emphasized the transnational criminal aspects of the Wagner Group on January 26, 2023, when it designated the group as a transnational criminal organization (TCO) pursuant to Executive Order 13581.<sup>40</sup> In justifying the Wagner Group's criminal designation, the Treasury Department explained, "Wagner personnel have engaged in an ongoing pattern of serious criminal activity, including mass executions, rape, child abductions, and physical abuse."<sup>41</sup> While it has been well documented in numerous reports that the Wagner Group carries out terrorism and criminal acts in Ukraine and throughout the African continent, what is less well known is that the organization leverages American-made social media tools to recruit U.S. citizens and others to its cause.

In May 2023, *Politico* published an article noting that PMC Wagner was trying to recruit, via Facebook and Twitter, individuals to fill positions as medics, drone operators, and psychologists to assist in the group's war effort in Ukraine.<sup>42</sup> According to Logically, a UK-based disinformation-focused research group, the posts were in multiple languages and received more than 120,000 views.<sup>43</sup> The Wagner Group has grand ambitions, and its founder has admitted to meddling in U.S. elections. In a post over Russia social media site VK, Prigozhin explained, "we have interfered in U.S. elections, we are interfering, and we will continue to interfere."<sup>44</sup> The Wagner Group is a threat to the United States. That is why I have argued that the group should be added to the State Department's list of Foreign Terrorist Organizations. It is also why I support the bipartisan HARM Act, which would require the State Department to designate the Wagner Group as an FTO.<sup>45</sup>

## Conclusion

The threat posed by a broad range of transnational groups remains significant. The drug trafficking organizations, terrorist groups, and mercenaries I have highlighted in my testimony only represent a very small component of the overall threat picture. Books are quite literally written about each one of these dangerous groups. What is contained in the testimony above is a surface level examination. Moreover, there are many other types of transnational threats that persist, such as the growing threat posed by racially and ethnically motivated violent extremists (REMVE). The REMVE threat has become increasingly interconnected with U.S. based Nazis linked to overseas REMVE groups like the Russian Imperial Movement (RIM). RIM was designated as a terrorist group by the U.S. Department of State on April 7, 2020, pursuant to Executive Order 13224.<sup>46</sup>

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<sup>40</sup> <https://home.treasury.gov/news/press-releases/jy1220>

<sup>41</sup> Ibid.

<sup>42</sup> [https://www.politico.eu/article/russia-ukraine-war-mercenaries-wagner-group-recruit-twitter-facebook-yevgeny-prigozhin/?utm\\_campaign=Readbook&utm\\_medium=email&\\_hsmi=260770258&\\_hsenc=p2ANqtz-9yPLN20j9Zz7stblBhK5trA8vxwCc\\_CH9DJf3B2\\_dmNWEusDazbwgk-4RB8c45f3Dz2MrxkB5kXkdzvFo0hVqrCJYcIw&utm\\_content=260770258&utm\\_source=hs\\_email](https://www.politico.eu/article/russia-ukraine-war-mercenaries-wagner-group-recruit-twitter-facebook-yevgeny-prigozhin/?utm_campaign=Readbook&utm_medium=email&_hsmi=260770258&_hsenc=p2ANqtz-9yPLN20j9Zz7stblBhK5trA8vxwCc_CH9DJf3B2_dmNWEusDazbwgk-4RB8c45f3Dz2MrxkB5kXkdzvFo0hVqrCJYcIw&utm_content=260770258&utm_source=hs_email)

<sup>43</sup> Ibid.

<sup>44</sup> [https://www.reuters.com/world/us/russias-prigozhin-admits-interfering-us-elections-2022-11-07/#:~:text=LONDON%2C%20Nov%20%20\(Reuters\),efforts%20to%20influence%20American%20politics.](https://www.reuters.com/world/us/russias-prigozhin-admits-interfering-us-elections-2022-11-07/#:~:text=LONDON%2C%20Nov%20%20(Reuters),efforts%20to%20influence%20American%20politics.)

<sup>45</sup> <https://www.congress.gov/bill/118th-congress/house-bill/506?s=1&r=50>

<sup>46</sup> <https://2017-2021.state.gov/united-states-designates-russian-imperial-movement-and-leaders-as-global-terrorists/>

I want to close my testimony by emphasizing that while I strenuously oppose the terrorist designation of the Mexican drug cartels, I can understand the desire to label them as FTOs. They are a menace and more must be done to counter them. Congress certainly has an important role in ensuring this is done by holding the executive branch accountable for failed approaches. While I encourage Congress to not designate the cartels as FTOs, Congress does have every right to pursue that objective. I speak from direct experience when I say that without Congressional pressure, the State Department would not have moved as quickly as it could have to designate Boko Haram and the Haqqani Network as FTOs. In the case of the Mexican drug cartel issue, however, I would encourage all to examine some of the recommended policy approaches I offer instead. Unlike a Mexican cartel FTO designation, these alternative approaches are more likely to impact the cartels' blood-stained wallets.

Testimony of Douglas Farah  
President, IBI Consultants, LLC

Before the

House Committee on Homeland Security  
Subcommittee on Counterterrorism, Law Enforcement and Intelligence

Transnational Criminal Organizations:  
The Menacing Threat to the U.S. Homeland

June 7, 2023  
310 Cannon House Office Building

Chairman Pfluger, Ranking Member Magaziner and members of the Subcommittee:

Thank you for the opportunity to discuss with you today the issue of Transnational Criminal Organizations and the threat they pose to the Homeland.

The multi-billion dollar illicit economies in Latin America, centered on the cocaine trade but diversifying to new commodities and activities, are undergoing profound restructuring with long-term strategic repercussions for the United States and its allies in the hemisphere.

New actors, new markets and new products are driving fragmentation among traditional groups, consolidation of criminalized economies within the Bolivarian Joint Criminal Enterprise (BJCE)<sup>1</sup> and convergence among different actors that are driving instability and corruption.

The growing, ideologically agnostic criminalized authoritarian model is spreading across Latin America. Authoritarian cliques are staying in power through alliances with transnational criminal structures that renders ideology almost meaningless. This new approach has opened new possibilities for formerly antagonistic groups. One-time ideological opponents are no longer considered enemies, but potential partners who can provide or purchase specific criminal services and financial rewards.

The sustained ability of the Bolivarian authoritarian criminal structures to consolidate and endure in Venezuela, Nicaragua, Bolivia and elsewhere has emboldened new leaders across the political spectrum. These new leaders follow the same playbook to gain a chokehold on state power and the wealth generated by the alliance of states and transnational criminal organizations (TCOs).

This necessitates using the same type of state partnership with an array of illicit actors in order to generate revenues, withstand U.S. economic sanctions, evade accountability and maintain a grip on power. Because they are politically agnostic, leaders of criminalized states often merge across ideological boundaries to move their illicit products or hide their illicit fundings through a shared network of fixers and facilitators.

This dynamic cripples democratic governance and the rule of law by embedding the criminal alliances at the most senior levels of multiple governments. Weakened democratic governance and growing criminal authoritarianism, in turn, greatly undermine U.S. strategic interests and influence by undermining its key allies in the region.

While the world of illicit economies and TCO structures are undergoing a seismic realignment across the hemisphere, many of our strategies to combat these threats remains rooted in the past, often attacking problem sets and issues that were relevant years ago but are no longer part of the landscape.

Much of the law enforcement and intelligence community analysis do not fully grasp the significant implications of the ideologically agnostic criminalized states – that is, states and governments that

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<sup>1</sup> We define the Bolivarian Joint Criminal Enterprise as an alliance of criminalized states and non-state actors, led by the Maduro regime in Venezuela, the Revolutionary Armed Forces of Colombia (FARC) in Colombia and the Daniel Ortega regime in Nicaragua. For a full discussion of the BJCE see IBI Consultants deliverable for DAS-D CNGT March 28, 2019, “Maduro’s Last Stand: Venezuela’s Survival Through the Bolivarian Joint Criminal Enterprise.”

actively seek the participation of TCOs as part of their national strategic endeavors. This leads to gaps in understanding how illicit activities are undertaken and who profits from them. The law enforcement and intelligence communities often rely on old paradigms of ideologically driven actors, mono-product cartel structures, and shared values with once-friendly countries. Unfortunately, these paradigms no longer describe the context that allows these illicit economies to flourish, and they do not help law enforcement develop viable strategies to address them.

Few states are wholly criminalized and most operate along a continuum. At one end are strong criminalized states, where the state acts as a partner of TCOs and/or use TCOs as an instrument of state policy. In addition to Venezuela, Nicaragua, Bolivia and Cuba of the Bolivarian bloc these include the countries of the Northern Triangle of Central America (El Salvador, Honduras, Guatemala); while Paraguay and Argentina are moving closer to that end of the spectrum.

At the other end are weak and captured states, where certain nodes of governmental authority have been seized by TCOs, where officials are the primary beneficiaries of the proceeds from the illicit activity but where the state as an entity is not integrated into the enterprise.<sup>2</sup>

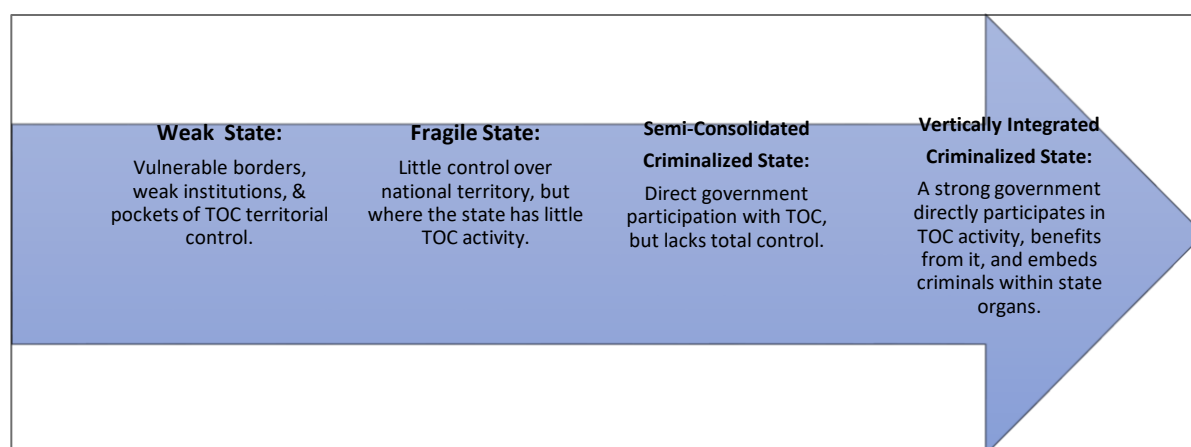


Figure 1: Continuum of state capture from weak state to criminalized state (IBI Consultants)

The framework of the convergence paradigm posits that multiple transnational criminal and terrorist groups – and their enablers, regardless of ideology – work collaboratively when economic or political interests align, and under state protection when such cooperation is mutually beneficial.<sup>3</sup> In too many places in the hemisphere, these threat networks co-opted governance structures and penetrated key public institutions and markets. Yet this framework, although repeatedly validated in recent years, is seldom used to analyze threat structures and illicit product pipelines.

<sup>2</sup>Douglas Farah, “Transnational Organized Crime, Terrorism and Criminalized States in Latin America: An Emerging Tier-One National Security Priority,” U.S. Army War College, Strategic Studies Institute, August 2012, accessed at: <https://press.armywarcollege.edu/cgi/viewcontent.cgi?article=1551&context=monographs>

<sup>3</sup> For an examination of convergence theory see: Michael Miklaucic and Jaqueline Brewer, eds. *Convergence: Illicit Networks and National Security in the Age of Globalization* (Washington, D.C., NDU Press, 2013); Douglas Farah, “Convergence and Criminalized States: The New Paradigm,” in *Beyond Convergence: World Without Order*, Ed. Hilary Matfess and Michael Miklaucic, Center for Complex Operations, NDU Press, October 2016.

The result is that now Latin America is facing a “perfect storm of reinforcing economic, criminal and political stresses that is eroding its institutions and economic prospects, radicalizing its people, and undermining its commitment to democracy and the rule of law.”<sup>4</sup>

The massive levels of corruption and multiple, persistent armed conflicts among and between state and non-state actors are key drivers of the regional decline in democratic governance and the wave of authoritarian populism in the hemisphere. The Biden administration designated corruption as a “core United States national security interest” in December 2021,<sup>5</sup> noting that

In today’s globalized world, corrupt actors bribe across borders, harness the international financial system to stash illicit wealth abroad, and abuse democratic institutions to advance anti-democratic means ... Corruption threatens United States national security, economic equity, global anti-poverty and development efforts, and democracy itself.<sup>6</sup>

While the U.S. has revoked the U.S. visas of several dozen Latin American leaders for corruption, these are executed in a haphazard, episodic manner that do not dismantle criminal structures or lead to asset forfeiture, the true life blood of the corrupt. Significantly more political will and a broader, more coordinated and coherent set of enforcement efforts will have to be employed to dismantle kleptocracies and criminal ruling elites.

This significant reordering of illicit networks structure in the Western Hemisphere is not taking place in a vacuum. The malign influence of China, Russia, and Iran adds new layers of complexity to regional anti-crime strategies.

This is in part because, at the same time illicit economies are expanding, traditional U.S. allies are shifting away from strategic partnerships with the United States to either openly antagonistic relationships or ones of dramatically less strategic engagement.

As Gen. Richardson, commander of US Southern Command, recently stated, the Western Hemisphere is under assault from “a host of cross-cutting, transboundary challenges that directly threaten” the Homeland. She added that:

Transnational criminal organizations (TCOs), which operate nearly uncontested, and blaze a trail of corruption and violence that create conditions that allow the PRC and Russia to exploit, threaten citizen security, and undermine public confidence in government institutions. These threats, along with Iran, corruption, irregular migration, and climate change, all overwhelm the region’s fragile state institutions, springing unrest and increasingly frustrated populations. This combination of factors pushes many political leaders to seek

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<sup>4</sup> Evan Ellis, “Latin America’s Perfect Storm,” Global Americans, August 31, 2022, accessed at: <https://theglobalamericans.org/2022/08/latin-americas-perfect-storm/>

<sup>5</sup> “Strategy on Countering Corruption,” The White House, December 2021, accessed at: <https://www.whitehouse.gov/wp-content/uploads/2021/12/United-States-Strategy-on-Countering-Corruption.pdf>

<sup>6</sup> United States Strategy on Countering Corruption, December 2021

resources and support from all sources, including our adversaries who are very eager to undermine U.S. presence and public image.<sup>7</sup>

Already the staunchly anti-U.S. bloc of the BJCE is ensconced in power in Venezuela, Bolivia and Nicaragua while deeply corrupt authoritarian governments in El Salvador, Guatemala and increasingly Honduras, are no longer viable partners for the United States.

In Argentina, President Alberto Fernández announced his country as the gateway to Russian expansion in the hemisphere on the eve of the Russian invasion of Ukraine and following a face-to-face meeting with Vladimir Putin.<sup>8</sup> He has also granted the PRC privileged access to strategic Argentine state infrastructure and key minerals. These concessions included the construction of an autonomous deep space station, control of a key access point to Antarctica, and access to lithium deposits under opaque contracts.

Brazil's right-wing populist leader Jair Bolsonaro also visited Russia just before the invasion of Ukraine. Bolsonaro declared his solidarity with Russia after meeting Putin and falsely bragged that he had negotiated a peaceful resolution to the looming conflict.<sup>9</sup>

In a sequence that clearly demonstrates blurred ideological lines, Bolsonaro's successor, long-time leftist leader Luiz Inácio Lula da Silva (Lula), went out of his way to downplay Russia's aggression in Ukraine, declare the U.S. was partly to blame for Russia's actions, a publicly embraced Maduro and the region's other authoritarian regimes.<sup>10</sup>

In Colombia, which has been the strongest partner of the United States over the past three decades, President Gustavo Petro campaigned on moving away from that close alliance. Since taking office, Petro has consistently bolstered the Maduro regime in Venezuela and used his large social media following to repeat Russian propaganda talking points. Most of Colombia's counter-narcotics efforts have been brought to a standstill by budget cuts, loss of experienced personnel and lack of political will.

This opens the door to the real possibility that the traditionally robust alliance of U.S. strategic partners in Latin America will be reduced to a handful of the smallest countries rather than regional economic and political leaders.

This erosion of alliances comes while traditional actors in criminal economies have remained active – including the Sinaloa Cartel (Mexico), the Cartel Jalisco Nueva Generación – CJNG (Mexico), and

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<sup>7</sup> Statement of General Laura Richardson, Commander, United States Southern Command, Before the 117<sup>th</sup> Congress, House Armed Services Committee, March 8, 2022, accessed at: <https://www.southcom.mil/Media/Special-Coverage/SOUTHCOMs-2022-Posture-Statement-to-Congress/>

<sup>8</sup> Federico Rivas Molina, "Alberto Fernández le ofrece a Rusia que Argentina sea su 'puerta de entrada a América Latina,'" El País, February 4, 2022, accessed at: <https://elpais.com/internacional/2022-02-04/alberto-fernandez-le-ofrece-a-rusia-que-argentina-sea-su-puerta-de-entrada-a-america-latina.html>

<sup>9</sup> Giovanna Galvani, "Bolsonaro em encontro com Putin: 'Somos solidários á Russia,'" CNN Brasil, February 16, 2022, accessed at: <https://elpais.com/internacional/2022-02-04/alberto-fernandez-le-ofrece-a-rusia-que-argentina-sea-su-puerta-de-entrada-a-america-latina.html>

<sup>10</sup> Will Grant and Jaroslov Lukiv, "Lula welcomes back banned Venezuelan leader Maduro," BBC News, May 30, 2023, accessed at: <https://www.bbc.co.uk/news/world-latin-america-65750537>



several thousand dissident members of the Revolutionary Armed Forces of Colombia – FARC (Colombia/Venezuela/Ecuador) divided into different groups.

Amid these changes, new actors such as Albanian organized crime, Turkish criminal groups, Libyan actors and other mafia groups are emerging as significant new players. These groups are changing the dynamics of traditional criminal economies, challenging and upsetting current relationships and offering new paths to expand profits through product and market diversification. Each group brings added prospects of globalization for products, money laundering and exchanges of lessons learned.

New actors, new markets and new products are driving fragmentation among traditional groups, consolidation of criminalized economies within the BJCE and convergence and competition among different actors that are driving instability and corruption. The Mexican CJNG has displaced the Sinaloa cartel as the dominant criminal network, expanding its illicit pipelines from primarily trafficking in cocaine to dominating fentanyl markets, fake pharmaceuticals, precursor chemicals methamphetamines and a host of other products.

Traditional criminal actors based in Colombia and Mexico are now competing with – and sometimes collaborating with – new actors such as transnational gangs in Brazil and Central America, as well extra-regional, non-traditional actors. New actors such as Albanian organized crime, Turkish criminal groups, Libyan actors and Italian mafia groups are emerging as significant new players that are changing the dynamics of these traditional groups, challenging and upsetting current relationships and offering new paths to expand profits through product and market diversification. Each group brings added prospects of globalization for products, new technologies, money laundering methodologies and exchanges of lessons learned.

As attention in the United States is focused heavily on the Russia-Ukraine conflict, and will likely remain so for the foreseeable future, the space for criminal actors and state-sponsored criminal groups to expand under the protection of regional and extra regional governments will likely continue to grow.

Among the most visible effects of the ongoing reordering of illicit economies and networks in Latin America under the protection of a criminalized state is the massive refugee and humanitarian crisis arising from the Maduro regime's repression, corruption and mismanagement. Some 6 million people have fled Venezuela in the past five years, with more than half remaining in camps in Colombia and millions more scattered around the region. This crisis is not the focus of this report but must be noted not only because of the human toll, but because supporting the Venezuelan migrant community strains the humanitarian resources of surrounding countries.

Long-term results of these two major blows to the regions' economies has been to force the state to retrench, leaving broadening gaps for illicit economies to flourish while empowering non-state armed actors that can replace the state. These issues, in turn, make finding viable, sustainable strategies to combat these trends in the near and mid term very difficult, even in the countries where the political will to do so exists.

In this context I and my colleagues at the International Coalition Against Illicit Economies (ICAIE), where I am a senior adviser, in a recent Spring 2023 Policy Brief (<https://icaie.com/2023/04/spring-icaie-policy-brief-emerging-transnational-organized-crime-threats-in-latin-america-converging-criminalized-markets-illicit-vectors/>) identified several emerging

security trends that offer new challenges to law enforcement and policy communities in the region that are far reaching, and threaten to accelerate the negative trends unless dealt with effectively. I summarize our findings in the Policy Brief, below.

**Trafficking in Natural Resources:** The illicit trafficking of natural resources not only opens new revenue streams for transnational criminal organizations and money laundering avenues, but it is a primary contributor to massive environmental degradation, health hazards, child labor, human trafficking and loss of state legitimacy. The most lucrative commodity is gold -- especially illegally mined gold -- a largely unregulated trade booming across the hemisphere from Venezuela, Colombia, Ecuador, Guyana and in the north to the Madre de Dios regions of Peru and Bolivia and the Amazon Basin in Brazil.

Gold has several advantages that make it increasingly attractive to criminal groups as the formal financial system has put anti-money laundering laws and regulations in place. As the Organization of American States (OAS) noted in a series of reports, illicit gold mining provides fungible assets that are easy to transport, largely impossible to trace once out of the ground, and readily convertible in markets around the world.<sup>11</sup>

The price of gold has risen sharply in recent years, meaning in many places, mining gold illegally is more profitable for miners in the jungles of South America than planting coca crops to produce cocaine.<sup>12</sup> If gold is moved at 95 percent purity or below it does not legally have to be declared a financial instrument. This makes it easy to move nearly pure gold to a financial hub without declaring it, refine it *in situ* and have gold that can be turned into cash immediately in ways that avoid the formal banking system. This process enables criminals and kleptocrats to exploit gold markets as a way to launder dirty money.

The Maduro regime in Venezuela has raised hundreds of millions of dollars through the sale of illegally mined gold, often with the support or proxy actions of Colombian non-state armed actors affiliated with different groups of the Revolutionary Armed Forces of Colombia (FARC) dissident factions. Large gold refineries in the United Arab Emirates, United States and elsewhere have been sanctioned for their massive failure of their own “know your customer” rules and due diligence. One refinery in Suriname helped the FARC, the Maduro regime and Mexican cartel launder hundreds of millions of dollars through illicit gold and falsified gold invoices.<sup>13</sup>

As U.S. pressure to stem the flow of what human rights groups and others call “blood gold” to the international market has increased, growing amounts of gold have flowed from Venezuela, Nicaragua, Suriname, Ecuador and elsewhere to state actors and criminal enterprises operating outside of the hemisphere, including Turkey, China, Kenya, the United Arab Emirates and

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<sup>11</sup> “Tipologías y señales de alerta relacionadas con el lavado de activos provenientes de la minería ilegal en América Latina y el Caribe,” Organization of American States, Department Against Transnational Organized Crime, January 2022, accessed at: <https://www.flipsnack.com/dcmcenter/doc-tipolog-as-y-se-ales-de-alerta-mineria-ilegal-esp.html>

<sup>12</sup> Javier Villalba, “Colombia Drug Trafficking Money Laundered Through Modified Gold,” InSight Crime, June 17, 2021, accessed at: <https://insightcrime.org/news/urabenos-gold-launder-drug-money-colombia/>

<sup>13</sup> Douglas Farah and Kathryn Babineau, “Suriname: New Paradigm of a Criminalized State,” Global Dispatch, Center for a Secure Free Society, March 2017, accessed at: <https://www.securefreesociety.org/wp-content/uploads/2017/03/Global-Dispatch-Issue-3-FINAL.pdf>

elsewhere.<sup>14</sup> In recent years, China has become an increasingly important market for gold mined by the Maduro regime, which often the allied regime of Daniel Ortega in Nicaragua to move the gold to market.<sup>15</sup> A group of Libyan middlemen who had long ties to the Gadhafi regime's sanctions evasion efforts in the 1990s are key facilitators in this new criminal convergence space.<sup>16</sup>

The Ascent, Diversification and Expansion of the Cartel Jalisco Nueva Generación (CJNG): The CJNG in the past three years has emerged as the most prominent cocaine trafficking organization in Latin America, surpassing the Sinaloa Cartel and other Mexican and Colombian trafficking structures. It now operates in at least 29 of Mexico's 33 states, as well as northern Central America, Ecuador, Colombia and Venezuela.<sup>17</sup> It is also expanding its operation and corruptive influence in different parts of the world.

In order to achieve this, the CJNG has successfully focused on:

- Expanding its territorial control in multiple jurisdictions in order to control all illicit activities rather than just operating as a cocaine *plaza*;
- The indiscriminate use of widespread violence to combat other cartels, law enforcement, perceived enemies such as journalists, and would-be competitors and successfully targeting high profile targets;
- A rapid scaling up of its business opportunities inside and outside of Mexico while moving to diversify its portfolio and develop new methodologies for laundering and moving its illicit proceeds.

A primary area of the CJNG's expanded and diversified economic profile now includes a growing dominance in the trafficking of fake medicines and counterfeit pharmaceuticals, a multi-billion illicit industry repeatedly traced back to this cartel. In Mexico, sixty percent of commercially sold pharmaceuticals are counterfeit, expired, or stolen.<sup>18</sup> Pirated pharmaceuticals are most common in Guanajuato, Jalisco, Guerrero, and Michoacan. The medicines are sold online, in the informal economy, and in professional brick-and-mortar pharmacies, where CJNG liaisons force pharmacists and storekeepers to sell and store them alongside real medicine.

Counterfeit pharmaceuticals are often sold for a fifth of the price of real medicine. Fake medicine has included treatments for HIV, cancer, osteoporosis, diabetes, blood pressure, cholesterol, and

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<sup>14</sup> See for example: Carina Pons and Mayela Armas, "Venezuela sold 73 tonnes of gold to Turkey, UAE last year: Legislator," Reuters, February 6, 2019, accessed at: <https://www.reuters.com/article/us-venezuela-politics-gold/venezuela-sold-73-tonnes-of-gold-to-turkey-uae-last-year-legislator-idUSKCN1PV1XE> ; and "Gold and Grief in Venezuela's Violent South," International Crisis Group, February 28, 2019, accessed at: <https://www.crisisgroup.org/latin-america-caribbean/andes/venezuela/073-gold-and-grief-venezuelas-violent-south>

<sup>15</sup> Yalilé Loiza, "La OEA advirtió sobre el incremento de comercio de oro desde Ecuador a China," Infobae, February 1, 2023, accessed at: <https://www.infobae.com/america/america-latina/2023/02/01/la-oea-advirtio-sobre-el-incremento-del-comercio-ilegal-de-oro-desde-ecuador-a-china/>

<sup>16</sup> For details see: Douglas Farah and Marianne Richardson, "Dangerous Alliances: Russia's Strategic Inroads in Latin America," Institute for National Strategic Studies, National Defense University, Strategic Perspectives 41, December 2022, accessed at: <https://inss.ndu.edu/Portals/68/Documents/stratperspective/inss/strategic-perspectives-41.pdf>

<sup>17</sup> IISS Armed Conflict Survey, 2022. Data from the Mexico Ministry of Finance and Public Credit.

<sup>18</sup> Castillo Garcia, Gustavo. "Se apodera el 'CJNG' de la producción de medicinas 'piratas'". La Jornada, 17 March 2020. <https://www.jornada.com.mx/ultimas/politica/2020/03/17/se-apodera-el-cjng-de-la-produccion-de-medicinas-piratas-9877.html>

obesity.<sup>19</sup> Pharmacists who oppose the sale of the counterfeit medicines, do so at risk to their own lives.<sup>20</sup>

The cartels' expanded trafficking in counterfeit pharmaceuticals includes pills that are cut with illegal drugs, notoriously fentanyl, or fentanyl disguised as other pharmaceutical products. Many counterfeit pharmaceuticals connected to the CJNG and other cartels contained fentanyl, including counterfeit Oxycodone, Xanax, and Roxicodone.<sup>21</sup> These pills were milled in pill presses to mimic legitimate pharmaceuticals. Including fentanyl in the recipe for these drugs makes drug trafficking even more profitable and harder to detect, as cartels can package the substances into ever-smaller bags, spread them among an ever-wider network of distributors, and achieve the same or greater levels of usage.<sup>22</sup> Increasingly, the cartels have also started mixing fentanyl with xylazine—a sedative used in cow and horses-- and found in many cities across the United States which causes severe skin ulcerations, necrosis, and can result in amputations if left untreated.

The CJNG is sourcing the precursor chemicals for fentanyl production from the same suppliers – largely Chinese and Indian – used by other cartels, including the Sinaloa cartel.<sup>23</sup> The Asian suppliers sell to precursors to large Mexican companies and primarily imported through the Lázaro Cardenas and Manzanillo ports.

The link between expanded fentanyl production and supply of precursor chemicals makes controlling ports, especially vital ports such as Lázaro Cardenas and Manzanillo, critical for cartel economic supremacy. Whoever controls the ports has a stranglehold on the production of the new synthetic production line, and related illicit markets.

#### The Evolution of the MS-13 and PCC Gangs into Transnational Criminal Organizations:

Since their emergence in the criminal landscape as prison-based gangs in the mid-1990s both the MS-13 (*Mara Salvatrucha*) in Central America and the PCC (*Primeiro Comando da Capital*) in Brazil have been identified primarily as street thugs known for their ruthless violence, flashy tattoos, neighborhood extortion rings and cultural insularity. While that typology was true for many years, both groups have now grown into transnational criminal threats, making the past nomenclature both obsolete and inaccurate.

As I have argued in recent academic publications and policy discussions that this coalescing of transnational criminal groups that have moved beyond gangs to Community Embedded

<sup>19</sup> “El CJNG extiende sus tentáculos criminales: así trafica medicamentos piratas en Mexico.” Infobae, 17 March 2020. <https://www.infobae.com/america/mexico/2020/03/17/el-cjng-extiende-sus-tentaculos-criminales-asi-trafica-medicamentos-piratas-en-mexico/>

<sup>20</sup> Castillo Garcia, Gustavo. “Se apodera el ‘CJNG’ de la produccion de medicinas ‘piratas’”. La Jornada, 17 March 2020. <https://www.jornada.com.mx/ultimas/politica/2020/03/17/se-apodera-el-cjng-de-la-produccion-de-medicinas-piratas-9877.html>

<sup>21</sup> Atlanta-Carolinas High Intensity Drug Trafficking Area’s 2019 Threat Assessment. [https://www.scstatehouse.gov/CommitteeInfo/HouseLegislativeOversightCommittee/AgencyWebpages/AlcoholDrugAbuse/Drug\\_Trafficking\\_Threat\\_Assessment.pdf](https://www.scstatehouse.gov/CommitteeInfo/HouseLegislativeOversightCommittee/AgencyWebpages/AlcoholDrugAbuse/Drug_Trafficking_Threat_Assessment.pdf)

<sup>22</sup> “La estrategia del CJNG y el Cartel de Sinaloa para inundar Estados Unidos con fentanilo.” Infobae, 12 May 2022. <https://www.infobae.com/america/mexico/2022/05/13/la-estrategia-del-cjng-y-el-cartel-de-sinaloa-para-inundar-estados-unidos-con-fentanilo/>

<sup>23</sup> Asmann, Parker. “Mexico’s Sinaloa Cartel, CJNG Share Fentanyl Chemical Suppliers.” InSight Crime, 16 November 2022. <https://insightcrime.org/news/mexico-sinaloa-cartel-cjng-chemical-suppliers-fentanyl/>

Transnational Armed Groups (CETAGs) in informal and imperfect alliances, pose enormous and little-understood challenges to U.S. strategic interests and the U.S. ability to effectively respond to broadening hemispheric instability. Rooted in their communities, this type of criminal group is likely to expand across the hemisphere.

The MS-13, primarily operating in the Northern Triangle of Central America (El Salvador, Honduras, Guatemala) and the PCC, based in São Paulo (and active in most Brazilian states), are now both tier one criminal/political/military threats to hemispheric stability.<sup>24</sup> The groups – no longer gangs but transnational criminal structures – are becoming more deeply enmeshed in the global drug trade, the body politic, and armed conflicts in the hemisphere. Both structures are rapidly amassing formal political power and seek new alliances with each other and other state and non-state armed actors to achieve their goals of becoming major criminal enterprises embedded in the state. In addition, both groups share important characteristics. These include:

- A hierarchical structure that is both rigid and allows for local autonomy. At the highest levels, the hierarchies are pyramid shaped. Leaders achieve coordination through bodies known as *sintonias* (PCC) and *ranflas* (MS-13), but local groups have significant freedom in implementing the strategic decisions the leadership makes;
- Members aspire to visible trappings of wealth and economic success (weapons, cars, luxury houses, beautiful women, jewelry);
- An increasing reliance on local, retail drug sales (*narco menudeo*) to create local demand and provide income that allows them to diversify their criminal portfolios and move away from deeply unpopular revenue streams such as extortion in the neighborhoods they control. The retail sales include cocaine, crack cocaine, chemical-laced marijuana called *krispy* and generate the bulk of revenues for both groups; prostitution; human smuggling and other high-end illicit activities;
- A reliance on territorial control in heavily populated areas such as national and regional capitals, as well as key drug trafficking routes, to gain political and economic leverage and vertically integrate their trafficking structures;

In addition, both groups have reached some understanding with the Maduro regime in Venezuela and allied criminal structures operating in Venezuelan territory to acquire cocaine and weapons, and both rely on territorial control as their primary claim to legitimacy.

These groups have replaced the state as the arbiter of power across most of the areas where they operate; they have more legitimacy in many ways than government institutions.

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<sup>24</sup> A tier one, or existential threat is considered to be among the most serious of all threats to national security, and has been defined as a that that would “deprive the United States of its sovereignty under the Constitution, would threaten the territorial integrity of the United States or the safety within U.S. borders of large numbers of Americans, or would pose a manifest challenge to U.S. core interests abroad in a way that would compel an undesired and unwelcome change in our freely chosen ways of life at home.” See Louis Jacobson, “Is ISIS an ‘existential threat to the United States,’” PolitiFact, November 16, 2015.

The MS-13 remains largely confined to northern Central America and the United States, with a growing presence in Mexico. The MS-13 poses an existential threat to the governments of El Salvador and Honduras, both small countries whose primary strategic importance derives from their proximity to the United States. The group is expanding territorial control, infiltrating the police and negotiating pacts with governments that have increased the group's engagement in cocaine trafficking, production and retail. While moving aggressively to take over cocaine trafficking routes in the region, the MS-13 is far less involved in the transnational drug trade than the PCC. However, most of the MS-13 activities directly impact the United States, making it a more direct challenge.

The MS-13 – initially formed in prisons in Los Angeles, California in the 1980s before many were deported back to post-conflict Central America in mid-1990s<sup>25</sup> – has long been recognized as a significant strategic challenge for the United States, in part because of its U.S. roots and ongoing proximity and engagement across the U.S. In 2012 the group was declared “significant transnational criminal organization” by the U.S. Treasury Department.

While the PCC, unlike the MS-13, does not have operational U.S. branches and does not operate near a U.S. border, this CETAG has a demonstrated capacity to disrupt and destabilize multiple countries in the hemisphere – most notably Paraguay and Bolivia – as well as the operational capacity to deliver cocaine and other illicit products to Brazil, Africa and Europe. This broad reach, now extending into Colombia, Peru and Venezuela, in turn, drives massive corruption and is spurring the groundwork for state collapse in multiple countries. The cumulative impact poses a significant strategic threat to the United States and its hemispheric allies.

The Emergence of New Extra-Regional Criminal Structures: For most of the history of large-scale cocaine production and shipments in Latin America, the primary operational groups were Colombian or Mexican, with Caribbean groups and Central American structures playing a lesser role. With the diversification of both markets and products, the face of transnational organized crime in Latin America is growing much more diverse.

Now, operating along side – and sometimes in competition with – the fragmenting and realigning regional structures, there is a growing presence of Eastern European, Chinese, Turkish, Italian and Balkan syndicates vying for space.

There are many other indicators of growing extra regional actors in the region. Albanian, Kosovar and Greek criminal groups are competing alongside Mexican cartels for power in Ecuador.<sup>26</sup> An Albanian national, reportedly an important link between South American drug trafficking networks and Balkan criminal networks, was shot to death in a restaurant in Guayaquil in late January 2022.<sup>27</sup>

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<sup>25</sup> In the mid-1990s, as the civil wars in Central America ended, the Clinton administration began deporting thousands of gang members as they completed their prison terms in the United States, primarily California, flooding the Northern Triangle with thousands of violent felons the reconfigured back into the mirror images of the gangs they had formed in the United States. For a detailed look at the policies and history of the gang deportations and enormous difficulties this policy has caused in Central America, see Ana Arana, “How Street Gangs Took Central America,” *Foreign Affairs* 84, no. 3 (May/June 2005): 98–110.

<sup>26</sup> <https://www.wsj.com/articles/drug-trail-from-europe-to-ecuador-inside-the-hunt-for-elusive-narco-suspect-dritan-rexhepi-11637756980>

<sup>27</sup> Mistler-Ferguson, Scott. “Albanian drug traffickers jockey for position in Ecuador.” *InSight Crime*, 28 February 2022. <https://insightcrime.org/news/albanian-drug-traffickers-jockey-for-position-in-ecuador/>



The Ecuadoran media has confirmed at least six murders of Albanians since 2019. Turkish organized crime has been developing inroads into Venezuela since at least 2020<sup>28</sup> and in November 2022, Panama's role as a central logistics hub for extra-regional criminal organizations came to light. Authorities arrested 49 people in Dubai, Spain, France, Belgium, and the Netherlands, all with alleged ties to the so-called 'Super Cartel'. Defendants were allegedly coordinating a massive drug trafficking operation out of Panama with support from leading cartels in Ireland, Italy, Bosnia, the Netherlands, and Morocco.<sup>29</sup> According to Panama's attorney general, Panamanian nationals had been helping the Super Cartel move drugs and maintain communications around the world.

Italian organized crime, in particular groups with ties to the 'Ndrangheta, are also active in Argentina and Chile, with ties in Central America along drug trafficking routes to Europe.<sup>30</sup> Cocaine seizures in Portugal in August 2022 also indicate comprehensive collaboration between prominent Brazilian criminal groups, in particular the PCC, and West African groups operating out of Angola and Guinea Bissau.<sup>31</sup> Guinea Bissau has long been identified as a narco-state, with drug kingpins able to live freely and openly outside the capital with no threat from law enforcement.<sup>32</sup>

### Conclusions:

Latin America is facing a "host of cross-cutting, transboundary challenges" that directly threaten not only U.S. strategic interests, but the key pillars that have sustained long-standing partnerships across the region to jointly face myriad common issues. As illicit networks expand their territorial control, ecosystems of corruption, political power and product lines, they are aided and abetted by extra-regional actors such as China, Russia and Iran who undercut the rule of law and directly challenge U.S. goals and initiatives in the Western Hemisphere.

As traditional transnational organized criminal groups have formed new alliances with non-state extra-regional networks and merged with regional criminalized state actors, the United States is very likely facing an unprecedented loss of key allies and U.S. influence in the hemisphere. The terrain that is lost will likely prove very difficult to regain as states continue to deal with the fallout of the COVID-19 pandemic and the ongoing Venezuelan humanitarian crisis.

Russia and China view Latin America as a key theater of great power competition, and act accordingly. The United States must forgo the complacency inherent in having been most of the region's international partner of choice for a century, and seek creative new engagements with its partners. Higher-quality, more comprehensive, and more sustained engagement with the right communities will go far to strengthen democracy, civil society, and regional stability.

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<sup>28</sup> "Turkish organized crime boss: to evade DEA and ship cocaine to middle east, Erkan Yildirim, son of former Prime Minister and Parliament Speaker Binali Yildirim, close friend of Interior Minister Suleyman Soyly, recently established 'New Headquarters' in Venezuela." Memri, 26 May 2021. <https://www.memri.org/reports/turkish-organized-crime-boss-evade-dea-and-ship-cocaine-middle-east-erkan-yildirim-son>

<sup>29</sup> Ballestin, Raquel. "Panama becomes logistics hub for drug trafficking 'Super Cartel'." InSight Crime, 9 December 2022. <https://insightcrime.org/news/panama-logistics-hub-drug-trafficking-super-cartel/>

<sup>30</sup> Alvarado, Isaias. "Este país de América es el nuevo 'paraíso' de carteles y su fama de tranquilo se está diluyendo." Univision, 25 July 2021. <https://www.univision.com/noticias/narcotrafico/este-pais-es-el-nue>

<sup>31</sup> Ford, Alessandro. "Portugal fighting back against rising tide of cocaine." InSight Crime, August 2022. <https://insightcrime.org/news/portugal-fighting-back-against-rising-tide-cocaine/>

<sup>32</sup> Dalby, Chris. "Record cocaine hauls confirm Guinea-Bissau's 'narco-state' reputation." InSight Crime, 25 September 2019. <https://insightcrime.org/news/analysis/guinea-bissau-colombia-cocaine-hauls/>

The sheer number of violent, criminal networks now controlling territory and wielding political power— some of them protected by member states of the BJCE – mean the desired end state of stability will prove elusive for many communities. The same forces wield massive corruption networks to undermine rule of law, hollow out state institutions, weaken civil society and drive violence and irregular migration.

The United States has an underutilized toolbox that can be deployed to reverse these worrisome trends, but new policy initiatives, backed by resources, must be deployed quickly or the costs of these trends will be even higher.

In order to counter the current trends in Latin America, the United States must take short-term actions that support a long-term strategy of re-engagement and partnership. These include:

- Getting U.S. ambassadors confirmed and in place in key countries across the region would be an important and achievable first step. The lack of ambassadors feeds the perception that the U.S. does not prioritize the region and provides less robust engagement at senior policy levels.
- Redefine who the United States is willing to strategically partner with away from the traditional right vs. left paradigm to one that prioritizes democratic governance, rule of law and anti-corruption efforts. This would open the doors to meaningfully engage with the new governments of Chile and Honduras more robustly while making countries like Argentina and Brazil less central for policy initiatives.
- Fully embrace the Biden administration's twin policies of combatting transnational organized crime and corruption as priorities. This includes funding and implementing unfulfilled and unfunded initiatives to create task forces to work with regional partners on these issues and empower civil society to participate in these struggles.
- As part of the whole of government agenda, refine and prioritize combatting illicit networks, particularly those linked to state actors such as Venezuela and Nicaragua. This not only combats corruption but weakens the criminalized states and their non-state actors. Use the Summit of the Americas event in June 2022 to reset U.S. engagement in the region with a clear articulation of priorities, while highlighting the advantages partnership with the U.S. offers as opposed to the consequences of allying with Russia, China or Iran.